



# Memorandum

**TO:** HONORABLE MAYOR AND  
CITY COUNCIL

**FROM:** John Stufflebean

**SUBJECT:** SEE BELOW

**DATE:** May 23, 2007

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Approved	/s/	Date	05/25/07
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**SUBJECT: WATER UTILITY SYSTEM-RATE INCREASE BREAKDOWN/ RATE  
STABILIZATION RESERVE BALANCE**

## **BACKGROUND**

On May 14, 2007, during the Operating Budget Study Session, Vice Mayor Cortese requested that staff provide a breakdown of the proposed municipal water rate increase and to look at other reserves including the Rate Stabilization Reserve (RSR) to see if funds can be withdrawn to partially or fully offset the proposed water rate increase.

## **ANALYSIS**

As part of Ordinance No. 26903, the RSR was established beginning in 2004-2005. The reserve is calculated each year at 5% of water sales revenue. The current balance in the RSR stands at \$1,148,000. Retail water rates must be set to recover increased operating costs associated with wholesale water, Integrated Billing System, and maintaining appropriate reserve levels per the Municipal Code. Operating costs are projected to increase by \$2,521,974 in 2007-2008 which would require a rate increase of 12%. The final actual amount of the costs and rate increase, however, will be determined after the Santa Clara Valley Water District and San Francisco Public Utilities Commission set the cost of wholesale water, currently scheduled for the first week of June. This information will be incorporated in the final municipal water rate recommendation that will be brought forward for Council consideration on June 19th.

**ANALYSIS (CONT'D)**

The following table shows the range of the ongoing cost increase breakdown that needs to be recovered in water rates:

**2007-2008 Increase Projections**

<u>Wholesale Water</u>	<u>Cost Increase</u>	<u>Rate Increase</u>
SFPUC <sup>(1)</sup>	\$287,000	1.37%
SCVWD <sup>(1)</sup>	\$1,435,650	6.84%
<u>2007-08 Budget Proposals</u>		
Integrated Billing System	\$254,809	1.21%
Green Building	\$89,734	0.42%
<u>Reserves &amp; Transfers<sup>(2)</sup></u>		
Overhead and Transfers	\$351,421	1.67%
Rate Stabilization Reserve	\$103,360	0.49%
<b>TOTAL</b>	<b>\$2,521,974</b>	<b>12%</b>

Staff does not recommend using the RSR for ongoing expenses such as the cost of wholesale water. Using the RSR in 2007-2008 will reduce the rate increase, but in 2008-2009 retail rates will have to be increased at a higher rate to recover the 2007-2008 and 2008-2009 wholesale water costs. Staff recommends using the RSR only under the following conditions:

- To postpone a rate increase if wholesale water costs increase unexpectedly during A given year;
- A fluctuation in water consumption revenues due to drought creating an unanticipated shortfall;
- Catastrophic losses as a result of a natural disaster.

/s/

JOHN STUFFLEBEAN

Director, Environmental Services

For questions please contact Mansour Nasser, Deputy Director, at 277-4218.

<sup>(1)</sup> These figures were based on the range of the percentage increase provided by SCVWD & SFPUC.

<sup>(2)</sup> The Reserves and Transfers figures are calculated based on percentage of revenues per the Municipal Code.